

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ludington Mass Transportation Auth.	County Ludington
Fiscal Year End 9/30/06	Opinion Date 11/2/06	Date Audit Report Submitted to State 12/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 1107 E. 8TH STREET		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

**LUDINGTON MASS TRANSPORTATION AUTHORITY**

**REPORT ON FINANCIAL STATEMENTS**  
**(with additional information)**

**SEPTEMBER 30, 2006 AND 2005**

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## **Independent Auditor's Report**

To the Board of Directors  
Ludington Mass Transportation Authority  
Ludington, Michigan

We have audited the accompanying financial statements of the business-type activities of Ludington Mass Transportation Authority, the "Authority", as of and for the year ended September 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ludington Mass Transportation Authority, as of September 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2006, on our consideration of Ludington Mass Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ludington Mass Transportation Authority's basic financial statements. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effect of expensing additional depreciation due to a change in depreciable life as described in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 2, 2006

**Ludington Mass Transportation Authority**  
**Management Discussion and Analysis**  
**For the year ended September 30, 2006**

This section of the Authority's annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2006. This section should be read in conjunction with the financial statements which follow this section.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at September 30, 2006, by \$3,484,937. Of this amount, \$892,950 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$119,516. This decrease results mainly from increase in fuel and insurance costs.
- The Authority remained free of long-term debt during the period.
- Federal reimbursement of eligible expenses increased to 17% from 12.4%
- State reimbursement of eligible expenses increased to 39.25% from 38.43%.

**Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expense are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

**Financial Analysis of the Ludington Mass Transportation Authority**

For the year ended September 30, 2006, assets exceeded liabilities by \$3,484,937. The Authority is a capital-intensive enterprise, and approximately 75% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

**Ludington Mass Transportation Authority**  
**Management Discussion and Analysis**  
**For the year ended September 30, 2006**

**Figure A-1**     *Condensed Statement of Net Assets*

	<u>9/30/06</u>	<u>9/30/05</u>
<b>Assets</b>		
Current	\$ 1,010,898	\$ 1,013,015
Non-Current	2,591,987	2,694,469
	<u><b>\$ 3,602,885</b></u>	<u><b>\$ 3,707,484</b></u>
<b>Liabilities</b>		
Current	\$ 117,948	\$ 103,031
<b>Net Assets</b>		
Invested in Capital Assets	2,591,987	2,694,469
Unrestricted	892,950	909,984
	<u><b>3,484,937</b></u>	<u><b>3,604,453</b></u>
<b>Liabilities and Net Assets</b>	<u><b>\$ 3,602,885</b></u>	<u><b>\$ 3,707,484</b></u>

The Authority's net assets decreased by \$119,516 in 2006. The following is a summary of Revenues, Expenses and Changes in Net Assets which show how the \$119,516 decrease in net assets occurred.

**Figure A-2**     *Changes in Net Assets from Operating Results*

**For the year ended September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 256,859	\$ 223,620
Operating expenses	<u>1,481,558</u>	<u>1,560,736</u>
OPERATING (LOSS)	<u>(1,224,699)</u>	<u>(1,337,116)</u>
Taxes	232,002	183,716
Other Nonoperating revenue	<u>715,616</u>	<u>812,839</u>
Total Nonoperating revenue	<u>947,618</u>	<u>996,555</u>
Income (Loss) Before Capital Contributions	(277,081)	(340,561)
Capital Grants	<u>157,565</u>	<u>8,252</u>
CHANGE IN NET ASSETS	<u><b>\$ (119,516)</b></u>	<u><b>\$ (332,309)</b></u>

**Ludington Mass Transportation Authority  
Management Discussion and Analysis  
For the year ended September 30, 2006**

The following table shows 2006 revenue compared to 2005:

Revenues	2006 Amount	2006 Percent Of Total	2005 Amount	2005 Percent Of Total	Increase (Decrease) From 2005
Operating Revenue	\$ 256,859	21.33	\$ 223,620	18.33	\$ 33,239
Interest Income	32,948	2.73	18,920	1.55	14,028
Property Tax	232,002	19.26	183,716	15.06	48,286
Federal Assistance	203,990	16.93	201,526	16.52	2,464
State Assistance	462,571	38.40	548,885	44.98	(86,314)
Maintenance Service Revenues	13,740	1.14	15,550	1.27	(1,810)
Gain on Sale of Assets	2,367	0.21	27,958	2.29	(25,591)
Total Revenue	<u>\$ 1,204,477</u>	<u>100.00</u>	<u>\$ 1,220,175</u>	<u>100.00</u>	<u>\$ (15,698)</u>
Capital Contributions					
Federal	\$ 126,052	80.00	\$ 6,602	80.00	\$ 119,450
State	31,513	20.00	1,650	20.00	29,863
Total	<u>\$ 157,565</u>	<u>100.00</u>	<u>\$ 8,252</u>	<u>100.00</u>	<u>\$ 149,313</u>

The federal reimbursement rate increased to 17.0% for eligible expenditures and the State reimbursement rate increased to 39.25%. State revenue decreased due to utilizing a reverse commute grant in 2005.

### Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department – The department describes the major function areas of the Authority and includes:

Operations – Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance – Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration – All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation – Estimated pro-ratio of the cost of capital assets over the useful life of the asset.



**Ludington Mass Transportation Authority  
Management Discussion and Analysis  
For the year ended September 30, 2006**

The following table shows the expenses for 2006 compare to 2005 by department:

Department	2006 Amount	2006 Percent Of Total	2005 Amount	2005 Percent Of Total	Increase (Decrease) From 2005
Operations	\$ 730,734	49.32	\$ 750,574	48.09	\$ (19,840)
Maintenance	177,414	11.97	173,427	11.11	3,987
Administration	278,967	18.83	291,884	18.70	(12,917)
Depreciation	294,443	19.88	344,851	22.10	(50,408)
Total Expenses	<u>\$ 1,481,558</u>	<u>100.00</u>	<u>\$ 1,560,736</u>	<u>100.00</u>	<u>\$ (79,178)</u>

- Operations costs decreased due to providing services through a reverse commute grant in 2005 and not in 2006.
- Administration costs decreased due to a reduction in full time staff.
- Depreciation expense decreased due to a one-time adjustment in 2005 to adjust certain depreciable lives of assets.

Operating Expense by Object – The object is the classification of expenses by type of item. The following table shows expenses for 2006 compared to 2005 by object:

Object	2006 Amount	2006 Percent Of Total	2005 Amount	2005 Percent Of Total	Increase (Decrease) From 2005
Wages and Benefits	\$ 840,976	56.76	\$ 818,868	52.47	\$ 22,108
Services	50,037	3.38	142,486	9.13	(92,449)
Supplies and Materials	179,565	12.12	146,724	9.40	32,841
Utilities	33,432	2.26	39,924	2.56	(6,492)
Casualty and Liability	74,383	5.02	57,558	3.69	16,825
Miscellaneous	5,550	0.37	6,933	0.44	(1,383)
Lease and Rentals	3,172	0.21	3,392	0.22	(220)
Depreciation	294,443	19.88	344,851	22.09	(50,408)
Total	<u>\$ 1,481,558</u>	<u>100.00</u>	<u>\$ 1,560,736</u>	<u>100.00</u>	<u>\$ (79,178)</u>

- Services decreased due to having a reverse commute grant in 2005 and not in 2006.
- Supplies expenses increased due to higher fuel prices.
- Depreciation expense decreased due to a one-time adjustment in 2005.

**Ludington Mass Transportation Authority  
Management Discussion and Analysis  
For the year ended September 30, 2006**

**Capital Assets**

The Authority's investment in capital assets as of September 30, 2006, amounted to \$2,591,987 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2006 included the following:

- Two buses and a bus lift \$162,611
- Generator for the facility \$21,550
- Sweeper/scrubber \$7,800

**Factors Bearing on the Authority's Future**

With the current economic condition in the country and especially the State of Michigan, LMTA management anticipates the following:

- Federal Operating assistance is anticipated to be 15% of eligible operating expenses in 2007.
- State operating assistance is anticipated to be 39.25% of eligible operating expenses in 2007.
- As with other employers, the LMTA continues to face increased employee benefit costs. It is safe to anticipate another increase in 2007. In spite of the increase, the total cost of insurance will not increase significantly over 2006 due to retirement of one full time employee that was not replaced. Two other full time employees dropped their dependant coverage which will also help to reduce health insurance costs.
- The LMTA currently belongs to the Michigan Transit Pool and was one of the founding members. The result of belonging to an insurance pool over the last several years has saved the LMTA thousands of dollars in insurance premiums. Unfortunately all members of the pool share in excessive losses and these excessive losses are unpredictable. For several years the MTP self insured for \$1,000,000 and purchased excess insurance for \$4,000,000. Due to world events and 9/11 the reinsurers have raised rates to a point that \$4,000,000 in reinsurance was no longer affordable. To combat the large increase in reinsurance the MTP has decided to self insure for \$2,000,000 and reinsure for \$2,000,000. This decision has increased the cost of insurance to the LMTA. However, the LMTA believes it will save money over purchasing commercial insurance by continuing to purchase insurance through the MTP.

**Contacting the Public Transit's Financial Management**

This financial report is designed to provide the Ludington Mass Transportation Authority's citizens, taxpayers, and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ludington Mass Transportation Authority, 5545 W. Carr Street, Ludington, MI 49431.

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2006**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 908,821	\$ 801,123
Receivables:		
Accounts	20,497	19,438
Due from Other Governments	52,935	145,001
Prepaid expenses	17,844	36,777
Inventories	<u>10,801</u>	<u>10,676</u>
Total Current Assets	1,010,898	1,013,015
PROPERTY AND EQUIPMENT, less accumulated depreciation	<u>2,591,987</u>	<u>2,694,469</u>
TOTAL ASSETS	<u><u>\$ 3,602,885</u></u>	<u><u>\$ 3,707,484</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 30,725	\$ 40,504
Accrued liabilities:		
Accrued vacation	2,618	1,663
Payroll withholdings	1,710	2,115
Salaries and wages	10,129	9,575
Due to Other Governments	10,111	6,437
Deferred Revenue	<u>62,655</u>	<u>42,737</u>
Total Current Liabilities	<u>117,948</u>	<u>103,031</u>
NET ASSETS:		
Invested in Capital Assets	2,591,987	2,694,469
Unrestricted	<u>892,950</u>	<u>909,984</u>
Total Net Assets	<u>3,484,937</u>	<u>3,604,453</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,602,885</u></u>	<u><u>\$ 3,707,484</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES	\$ 256,859	\$ 223,620
OPERATING EXPENSES	<u>1,481,558</u>	<u>1,560,736</u>
Operating (Loss)	<u>(1,224,699)</u>	<u>(1,337,116)</u>
NON-OPERATING REVENUES:	<u>947,618</u>	<u>996,555</u>
NET INCOME (LOSS)	<u>(277,081)</u>	<u>(340,561)</u>
CAPITAL CONTRIBUTIONS		
Federal Financial Assistance	126,052	6,602
State of Michigan	<u>31,513</u>	<u>1,650</u>
Total Capital Contributions	<u>157,565</u>	<u>8,252</u>
DECREASE IN NET ASSETS	(119,516)	(332,309)
TOTAL NET ASSETS, beginning of year	<u>3,604,453</u>	<u>3,936,762</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 3,484,937</u></u>	<u><u>\$ 3,604,453</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 255,800	\$ 221,060
Cash payments to suppliers for goods and services	(555,435)	(1,076,711)
Cash payments to employees for services	<u>(621,547)</u>	<u>(602,125)</u>
Net cash used in operating activities	<u>(921,182)</u>	<u>(1,457,776)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES:</b>		
Local tax levy received	251,920	186,453
Maintenance service receipts	13,740	15,550
Operating grants received	<u>762,301</u>	<u>691,313</u>
Net cash provided by non-capital financing	<u>1,027,961</u>	<u>893,316</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(191,961)	(16,333)
Proceeds from sale of fixed assets	2,367	33,256
Capital grants received	<u>157,565</u>	<u>389,235</u>
Net cash provided (used) by capital and related financing activities	<u>(32,029)</u>	<u>406,158</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	<u>32,948</u>	<u>19,774</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	107,698	(138,528)
<b>CASH, beginning of year</b>	<u>801,123</u>	<u>939,651</u>
<b>CASH, end of year</b>	<u><u>\$ 908,821</u></u>	<u><u>\$ 801,123</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
RECONCILIATION OF OPERATING LOSS TO NET  
CASH USED IN OPERATING ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating income (loss)	<u>\$ (1,224,699)</u>	<u>\$ (1,337,116)</u>
Adjustments to reconcile operating loss to net cash provided		
By operating activities:		
Depreciation	294,443	344,851
Accounts receivable	(1,059)	(2,560)
Inventories	(125)	1,084
Prepaid expenses	18,933	2,812
Accounts payable	(9,779)	(466,546)
Accrued expenses	<u>1,104</u>	<u>(301)</u>
Total adjustments	<u>303,517</u>	<u>(119,660)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (921,182)</u></u>	<u><u>\$ (1,457,776)</u></u>

The accompanying notes are an integral part of this statement.

## **LUDINGTON MASS TRANSPORTATION AUTHORITY NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Ludington Mass Transportation Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

#### Reporting Entity

The Ludington Mass Transportation Authority is organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 196. The Transportation Authority has the capability to provide public transportation to the general public in the area of Ludington and Scottville, Michigan, and has the authority to provide this service throughout Mason County. Ludington Mass Transportation Authority does receive city millage for operations, and both City of Ludington and City of Scottville governing bodies appoint Ludington Mass Transportation Authority Board members. Ludington Mass Transportation Authority's financial statements are not included in either the City of Ludington's or the City of Scottville's audit reports. Only Ludington Mass Transportation Authority's operations are included in this report.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion for the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

#### Government-wide and Fund Financial Statements

The government-wide financial statement (i.e., the statement of net assets and the statement of revenue, expenses and change in net assets) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts – invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

- (1) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal is fully guaranteed by the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration.
- (3) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.



**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- (4) In United States government of Federal agency obligation repurchase agreements.
- (5) In bankers' acceptances of United States banks.
- (6) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Capital Assets and Depreciation

Capital assets are defined by the transportation authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets with an initial, individual cost of less than \$5,000 and/or an estimated useful life of less than one year and purchased with Federal and/or State grants are expensed and subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance". Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

Inventory and Prepaid Items

Inventories of motor vehicle lubricants and parts are valued at the lower of cost or market on a first-in, first out basis. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Deferred Revenue

The deferred revenue represents taxes received that are not recognized until the following year.

Compensated Absences

The Authority does not allow the carryover of sick and vacation benefits beyond the year ended. For September 30, 2006, however the Board approved the carryover of vacation benefits for one employee totaling \$988.

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2: PROPERTY & EQUIPMENT**

Major classes of property and equipment consist of the following:

<b>Business-type activities</b>	Balance 09/30/05	Increases	Decreases	Balance 09/30/06
Capital assets, not being depreciated				
Land	\$ 100,971	\$	\$	\$ 100,971
Capital assets, being depreciated				
Buildings	\$ 2,265,875			2,265,875
Vehicles	988,412	162,611	53,292	1,097,731
Operations		21,550		21,550
Bus and garage equipment	155,674	7,800		163,474
Furniture, fixtures & equipment	112,952			112,952
Total capital assets being depreciated	3,522,913	191,961	53,292	3,661,582
Less accumulated depreciation for:				
Buildings	113,559	113,559		227,118
Vehicles	676,485	147,823	53,292	771,016
Operations		2,873		2,873
Bus and garage equipment	80,538	15,195		95,733
Furniture, fixtures & equipment	58,833	14,993		73,826
Total accumulated depreciation	929,415	294,443	53,292	1,170,566
Total capital assets, being depreciated, net	2,593,498			2,491,016
Business-type activities capital assets, net	\$ 2,694,469			\$ 2,591,987

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

Capital assets were purchased with two sources of funds as follows:

	Purchased with Authority Funds	Purchased with Capital Grants	Total
Land and Buildings	\$ 344,583	\$ 2,022,263	\$ 2,366,846
Vehicles	17,865	1,079,866	1,097,731
Operations	21,550		21,550
Bus and garage equipment	18,547	144,927	163,474
Furniture, fixtures & equipment	78,931	34,021	112,952
	481,476	3,281,077	3,762,553
Less accumulated depreciation	81,613	1,088,953	1,170,566
Net Property and Equipment	\$ 399,863	\$ 2,304,849	\$ 2,591,987

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: RECEIVABLES**

Receivables as of year end for the Authority are as follows:

Account receivable	<u>\$ 20,497</u>
--------------------	------------------

The allowance for doubtful accounts is not considered to be material for disclosure.

**NOTE 4: PROPERTY TAXES**

The Authority levies a voter-approved tax for the City of Ludington and City of Scottville. The voters granted the authority to levy up to 1.3093 mills through 2006 for the City of Ludington and up to 1.2798 through 2008 for the City of Scottville. The taxes are levied and due July 1, and become delinquent after August 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period.

**NOTE 5: DEPOSITS AND INVESTMENTS**

At year end, the carrying amount of the Authority's deposits was \$908,821 and the bank balance was \$879,153 of which \$300,186 was covered by federal depository insurance and \$578,967 was uninsured and uncollateralized. The authority has no investments as of September 30, 2006. The authority has the following risk disclosures:

*Interest Rate Risk* – The authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - State statutes authorize the authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The authority has no investment policy that would further limit its investment choices. As of September 30, 2006, the authority has no investments that meet the above criteria.

*Concentration of Credit Risk* – The authority places no limit on the amount the district may invest in any one issuer.

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6: CONTINGENCIES**

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2004, 2005 and 2006, either have not commenced or have not been completed.

**NOTE 7: RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

**NOTE 8: CONCENTRATION OF CREDIT RISK**

For the fiscal year ended September 30, 2006, the Authority was reimbursed by the State of Michigan for 39.253% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage will be recalculated after total eligible expenses for all transits are determined based on audited figures.

**NOTE 9: PENSION**

The Authority has established a Simplified Employee Pension Program for all employees who are at least 21 years of age, received at least \$450 in compensation and have completed one year of service. Ludington Mass Transportation Authority contributes 5% of gross wages of each eligible participant each year. Total pension cost for the years ended September 30, 2006 and 2005 were \$28,240 and \$27,429 respectively. The covered payroll for the year ended September 30, 2006 was approximately \$593,810 and total payroll was \$622,652.

In addition, the Authority has a section 457 plan which allows employees to defer a portion of their wages into individual retirement annuities which are owned by each employee.

## **ADDITIONAL INFORMATION**

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
SCHEDULE OF OPERATING REVENUES  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Demand response	\$ 145,747	\$ 124,830
Contracted services	<u>111,112</u>	<u>98,790</u>
 TOTAL OPERATING REVENUES	 <u><u>\$ 256,859</u></u>	 <u><u>\$ 223,620</u></u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**SCHEDULE OF OPERATING EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total 2006</u>	<u>Total 2005</u>
Labor:					
Operating salaries and wages	\$ 325,482	\$	\$	\$ 325,482	\$ 310,440
Other salaries and wages	30,113	75,150	122,678	227,941	222,469
Dispatchers salaries and wages	69,228			69,228	68,915
Fringe benefits					
Other fringe benefits	110,135	37,261	42,689	190,085	189,615
Pension	18,506	3,610	6,124	28,240	27,429
Services					
Advertising/promotion expense			5,875	5,875	8,726
Other services	10,215	310	33,637	44,162	133,760
Materials and supplies consumed:					
Fuel and lubricants	95,387	480	2,373	98,240	75,802
Tires and tubes	13,311			13,311	6,899
Other materials and supplies	3,891	59,266	4,857	68,014	64,023
Utilities			33,432	33,432	39,924
Casualty and liability cost:					
Liability and property damage insurance	52,892		21,491	74,383	57,558
Miscellaneous expenses:					
Travel			4,122	4,122	5,523
Association dues and subscriptions			1,428	1,428	1,410
Leases and rentals		1,337	1,835	3,172	3,392
Depreciation	<u>264,255</u>	<u>15,195</u>	<u>14,993</u>	<u>294,443</u>	<u>344,851</u>
TOTAL EXPENSES	<u>\$ 993,415</u>	<u>\$ 192,609</u>	<u>\$ 295,534</u>	<u>\$ 1,481,558</u>	<u>\$ 1,560,736</u>



**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**SCHEDULES OF NON-OPERATING REVENUES**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
PROPERTY TAXES	<u>\$ 232,002</u>	<u>\$ 183,716</u>
STATE SOURCES		
State of Michigan Operating Grants		
Local Bus Operating Assistance (Act 51)		
Prior year adjustment - 2000		13,189
Prior year adjustment - 2001		4,868
Prior year adjustment - 2002	(9,414)	
Prior year adjustment - 2005		(4,860)
2006	471,985	381,449
Reverse Commute		<u>154,239</u>
	<u>462,571</u>	<u>548,885</u>
FEDERAL SOURCES		
U.S. Department of Transportation		
Operating Grant – Section 5311		
Contract 02-0061-Z15/R1	203,404	
Contract 02-0061-Z13/R1	(629)	122,311
Contract 02-0061-Z4		(359)
Contract 02-0061-Z10		(2,136)
Rural Transit Assistance Program	1,215	2,472
Reverse Commute		<u>79,238</u>
	<u>203,990</u>	<u>201,526</u>
OTHER		
Interest Income	32,948	18,920
Gain on sale of fixed assets	2,367	27,958
Maintenance service and other	<u>13,740</u>	<u>15,550</u>
	<u>49,055</u>	<u>62,428</u>
TOTAL NON-OPERATING REVENUE	<u><u>\$ 947,618</u></u>	<u><u>\$ 996,555</u></u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**SCHEDULES OF CAPITAL GRANTS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
State of Michigan capital grants:		
Contract 02-0061-Z14	\$ 31,513	\$
Contract 02-0061-Z8		2,362
Contract 02-0061-Z11		<u>(712)</u>
	<u>31,513</u>	<u>1,650</u>
Total State of Michigan capital grants		
Federal capital grants		
U.S. DOT capital grant		
Contract 02-0061-Z14	126,052	
Contract 02-0061-Z8		9,448
Contract 02-0061-Z11		<u>(2,846)</u>
	<u>126,052</u>	<u>6,602</u>
Total Federal capital grants		
	<u>\$ 157,565</u>	<u>\$ 8,252</u>
TOTAL CAPITAL GRANTS		

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006**

	<u>RTAP</u>	<u>Operations</u>	<u>Total</u>
Labor	\$	\$ 622,651	\$ 622,651
Fringe benefits		218,325	218,325
Services		50,037	50,037
Materials and supplies		179,565	179,565
Utilities		33,432	33,432
Casualty and liability insurance		74,383	74,383
Miscellaneous expense	1,215	4,335	5,550
Leases and rentals		3,172	3,172
Depreciation		294,443	294,443
	<u>\$ 1,215</u>	<u>\$ 1,480,343</u>	<u>\$ 1,481,558</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS  
OF GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Section 5311</u>	<u>Operating Assistance</u>
Expenses:		
Labor	\$ 622,651	\$ 622,651
Fringe benefits	218,325	218,325
Services	50,037	50,037
Materials and supplies	179,565	179,565
Utilities	33,432	33,432
Casualty and liability insurance	74,383	74,383
Miscellaneous expense	4,335	4,335
Leases and rentals	3,172	3,172
Depreciation	<u>294,443</u>	<u>294,443</u>
 TOTAL EXPENSES	 <u>\$ 1,481,558</u>	 <u>\$ 1,481,558</u>
Less ineligible expenses:		
Depreciation:		
Grant assets	266,551	266,551
Audit fees	5,875	
Maintenance on County vehicles	7,528	7,528
Capital grant expenses not capitalized	3,738	3,738
Entertainment expenses	76	76
Dues	<u>78</u>	<u>78</u>
 Total ineligible expenses	 <u>283,846</u>	 <u>277,971</u>
 NET ELIGIBLE EXPENSES	 <u>1,196,497</u>	 <u>1,202,372</u>
 Maximum Section 5311 reimbursement 17.00%	 <u>\$ 203,404</u>	
 Maximum State operating Assistance 39.25% of eligible expenses		 <u>\$ 471,985</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY**  
**MILEAGE DATA**  
**YEAR ENDED SEPTEMBER 30, 2006**

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2006. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	<u>Public Transportation Mileage</u>
DEMAND RESPONSE	
First quarter	78,087
Second quarter	87,114
Third quarter	86,114
Fourth quarter	<u>82,199</u>
TOTAL DEMAND RESPONSE	<u><u>333,514</u></u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
SCHEDULE OF VEHICLE HOURS AND PASSENGERS**

<b>September 30, 2006</b>	Passengers					Total Passengers
	Vehicle Hours	Regular Passenger	Senior Passenger	Handi- Capped Passenger	Senior Handi- Capped Passenger	
First Quarter	6,784	19,416	5,427	12,812	1,127	38,782
Second Quarter	6,829	20,481	6,039	12,761	1,079	40,360
Third Quarter	6,585	18,067	5,737	12,616	1,113	37,533
Fourth Quarter	6,030	13,634	5,548	11,883	1,208	32,273
	<u>26,228</u>	<u>71,598</u>	<u>22,751</u>	<u>50,072</u>	<u>4,527</u>	<u>148,948</u>

<b>September 30, 2005</b>	Passengers					Total Passengers
	Vehicle Hours	Regular Passenger	Senior Passenger	Handi- Capped Passenger	Senior Handi- Capped Passenger	
First Quarter	6,557	18,177	5,213	11,684	1,238	36,312
Second Quarter	6,684	19,570	5,377	11,919	961	37,827
Third Quarter	6,366	15,828	5,294	12,428	834	34,384
Fourth Quarter	5,903	13,323	5,558	11,544	932	31,357
	<u>25,510</u>	<u>66,898</u>	<u>21,442</u>	<u>47,575</u>	<u>3,965</u>	<u>139,880</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY  
SCHEDULE OF FINANCIAL ASSISTANCE  
FEDERAL AND STATE  
YEAR ENDED SEPTEMBER 30, 2006**

Federal grantor/Pass through grantor Program title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Beginning Receivable/ (Deferral)	Receipts	Disbursements	Adjustments	Ending Receivable/ (Deferral)
<u>U.S. Department of Transportation</u>								
<u>Passed through MDOT:</u>								
Operating assistance Section 5311	20.509	02-0061/Z15/R1	\$ 203,404	\$	\$ 173,855	\$ 203,404	\$	\$ 29,549
Operating assistance Section 5311	20.509	02-0061/Z13/R1	121,682	40,591	39,962		(629)	
R-TAP Training	20.509	N/A	1,215		1,215	1,215		
Reverse Commute		02-0061/Z5	67,124	33,236	33,326			
Capital Grant Section 5309	20.500	02-0061/Z14	126,052		126,052	126,052		
TOTAL FEDERAL ASSISTANCE			<u>\$ 519,477</u>	<u>\$ 73,827</u>	<u>\$ 374,410</u>	<u>\$ 330,671</u>	<u>\$ (629)</u>	<u>\$ 29,550</u>
<u>Michigan Department of Transportation</u>								
Operating assistance Act 51		2006	\$ 471,985	\$	\$ 455,353	\$ 471,985	\$	\$ 16,632
Operating assistance Act 51		2005		4,260	9,590			(5,330)
Operating assistance Act 51		2004		(1,656)			(1,656)	
Operating assistance Act 51		2003		7,762	1,009			6,753
Operating assistance Act 51		2002		3,743	5,671	5,671	(3,743)	
Operating assistance Act 51		2001		1,683	1,683			
Operating assistance Act 51		2000		20,490	20,490			
Reverse Commute		02-0061/Z5		33,236	33,236			
Capital grants		02-0061/Z14	31,513		31,513	31,513		
TOTAL STATE OF MICHIGAN ASSISTANCE			<u>\$ 503,498</u>	<u>\$ 69,518</u>	<u>\$ 558,545</u>	<u>\$ 509,169</u>	<u>\$ (5,399)</u>	<u>\$ 18,055</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Transit Committee  
Ludington Mass Transportation Authority

We have audited the financial statements of the business-type activities for Ludington Mass Transportation Authority as of and for the year ended September 30, 2006, which collectively comprise the Ludington Mass Transportation Authority's basic financial statements and have issued our report thereon dated November 2, 2006. That report was qualified because of the effect of expensing additional depreciation due to a change in the depreciable life of certain assets. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Ludington Mass Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Ludington Mass Transportation Authority, in a separate letter dated November 2, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ludington Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.



**LUDINGTON MASS TRANSPORTATION AUTHORITY  
SUPPLEMENTARY SCHEDULE OF INELIGIBLE COSTS  
YEAR ENDED SEPTEMBER 30, 2006**

<u>Program</u>	<u>Description of Ineligible Costs</u>	<u>Ineligible Cost</u>
Urban Mass Transportation Administration		
A) Operating Grants 02-0061	1) Depreciation: Deprecation accrued on assets purchased with Contributed capital must be deducted as an ineligible expense.	\$ 266,551
	2) Expenses for the maintenance of County vehicles	7,528
	3) Entertainment expenses	76
	4) Capital grant expenses not capitalized	3,738
	5) Ineligible portion of association dues	<u>78</u>
	TOTAL INELIGIBLE EXPENSES FOR STATE OPERATIONS	277,971
	5) Audit fees are ineligible for Section 5311	<u>5,875</u>
	TOTAL INELIGIBLE EXPENSE FOR SECTION 5311	<u><u>\$ 283,846</u></u>



November 2, 2006

To the Board of Directors  
Ludington Mass Transportation Authority

In planning and performing our audit of the financial statements of Ludington Mass Transportation Authority (Authority) for the year ended September 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Ludington Mass Transportation Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

#### Journal Entries

Currently there are no controls in place to monitor the journal entries made by the accountant. We recommend the Board set a policy stating journal entries over a stipulated amount (for example, \$5,000.00) be reviewed and signed off by the Executive Director. This step will provide another level of assurance on the controls over journal entries. Also, no subsidiary record is kept of the journal entries made. Currently, descriptions are included on the general ledger to explain the entry, but no additional source document is kept to support the need for the entry. Also, in the event of a disaster recovery, there are no records indicating the journal entries made. We recommend a subsidiary ledger be kept to support journal entries made.

#### Cash disbursements

During our testing, we noted that not all invoices contained an approval signature by the appropriate individual. It was explained to us that certain invoices were verbally approved, these approvals need to be documented by initials or a signature on the invoice. Also, we noted that invoices did not contain an indication of the general ledger account to be posted. We recommend that the policy of using a stamp to record the general ledger account number be required for cash disbursements and individuals responsible for making such approvals be instructed that initials or a signature is needed before the disbursement can be made. These procedures will help prevent unauthorized payment of invoices or invoices from being paid twice.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants